Oil & Gas

MARKET WEIGHT
(Maintained)

PAO 2026-28: Walking The Talk On OGSE Ecosystem Imperative

Analyst(s)
Kong Ho Meng
homeng@uobkayhian.com
+603 2147 1987

Highlights

- Unlike previous PAO editions, the OGSE Imperative may be the right ingredient for both Petronas and the industry to move forward. Petronas is sending a clear message that the OGSE ecosystem is not ancillary, but a vital component to Petronas' own sustainability. As OGSE evolves into a globally competitive value chain, it will directly boost Petronas' global market relevance and ability to deliver energy security by upholding 2m boepd domestic production and extending its global portfolio investment mix from 40% to 60%.
- However, execution and time matters. In theory, if Petronas is serious about reviving domestic energy security and OGSE sustainability, the capex and job flows for 2026 should commensurate with the expected activity increase. Also, the guidance from this PAO edition should be the most reliable benchmark for industry players, in order to finalise their capacity allocation to local projects and overseas. However, only the P&A subsegment enjoyed a major boost in outlook. Most other key segments saw minor reductions, including jackup rigs, fabrication, and offshore support vessels (OSV). The biggest negative surprise is HUC.

Valuation/ Recommendation

- **We retain sector MARKET WEIGHT as near-term risks persist.** We are long-term positive on Petronas' renewed focus on the OSGE sector, but opine that it will not be meaningful in the near term. On the macro level, consensus oil price expectation at US$60/bbl is still bearish for the 1H26 horizon. Locally, the Petronas-Petros disputes remain in impasse, now extending to the Bintulu LNG complex, contributing to a material earnings risk for 1H26. Our stock valuations are more reflective of long-term valuations, but our unchanged sector call assumes the sector valuation discount will still persist. Hence, we advise a wait-and-see until a clear resolution is achieved.
- **Top pick: MISC (MISC MK/BUY/Target: RM8.70).** We choose MISC as our top pick as it is a stable dividend play. While MISC is not yet out of the woods in terms of LNG fleet expiries, none of them are expected to materialise in the 2026 horizon. Alternatively, investors can consider **Malaysia Marine And Heavy Engineering Holdings (MMHE MK/BUY/Target: RM0.50)** which is trading at cheaper P/B but its long-term targets are more aligned to MISC.

Sector Picks

Company	Ticker	Rec	Share Price (RM)	Target Price (RM)
Yinson Holdings	YNS MK	BUY	2.36	3.10
MISC	MISC MK	BUY	7.92	8.70
Dialog Group	DLG MK	BUY	1.60	2.58
MMHE	MMHE MK	BUY	0.37	0.50

Source: Bloomberg, UOB Kay Hian

Local Wells To Be Drilled

	Current	2025A	2025E*	2024E*
• Exploration	21	15	19	19
• Appraisal	NA	NA	5	6
• Development	70	64	56	74
• Workover	NA	NA	14	17
• P&A	70	63	47	38

**Note: 2025E was the expectation in PAO 2025-27. 2025A was the actual execution; 2024E was the expectation in PAO 2024-26*
Source: PAO

Peer Comparison

Company	Ticker	Rec*	Price 30 Jan 2026 (RM)	Target Price (RM)	Last Year End	Market Cap. (RMm)	PE 2024 (x)	PE 2025F (x)	PE 2026F (x)	Price/ BV ps (x)	ROE 2025F (%)
Bumi Armada	BAB MK	BUY	0.31	0.40	12/24	1,838	1.9	3.6	4.2	0.3	4.4
Dialog Group	DLG MK	BUY	1.60	2.58	6/25	9,028	25.1	24.1	20.1	1.9	7.4
Deleum	DLUM MK	BUY	1.27	1.55	12/24	510	6.5	5.9	5.1	1.0	20.3
MISC	MISC MK	BUY	7.92	8.70	12/24	35,353	14.3	13.9	12.4	0.9	6.3
MMHE	MMHE MK	BUY	0.37	0.50	12/24	584	5.0	6.7	6.6	0.4	20.8
Petronas Dagangan	PETD MK	HOLD	20.82	23.20	12/24	20,684	17.6	16.6	17.9	3.2	10.0
Uzma	UZMA MK	BUY	0.40	0.76	6/25	235	6.2	4.9	4.7	0.4	10.1
Velesto Energy	VEB MK	HOLD	0.31	0.35	12/24	2,506	12.8	14.6	22.1	0.7	11.5
Yinson Holdings	YNS MK	BUY	2.36	3.10	1/25	6,897	15.7	10.7	8.6	1.4	12.7

Source: Bloomberg, UOB Kay Hian

Analysis

- **Petronas Activity Outlook (PAO) 2026-2028 key theme: The OGSE Imperative**. In the midst of a polycrisis environment today mired with multiple geopolitical risks, climate change and technology disruption, it can be perceived that Petronas' traditional clout on energy equity is waning. Unlike past PAO editions, Petronas no longer sees the OGSE ecosystem as an ancillary/corporate social responsibility, but a strategic imperative that is fundamental to Petronas' own sustainability. As OGSE evolves into a globally competitive value chain, it will directly boost Petronas' global market relevance and ability to deliver energy security by upholding 2m boepd domestic production and extending its global portfolio investment mix from 40% to 60%.
- **In our view, capex and job flows for 2026 should commensurate with the expected activity increase.** This is in theory, if Petronas is serious about reviving local production and upskilling the local value chain in tandem. However, we note that only the Plug & Abandonment (P&A) subsegment had a major uplift in outlook. Also, the guidance from this PAO edition should be the most reliable in theory. As an example, the number of OSVs required for production operations was cut again, but the figure should be the most accurate benchmark for OSV players to refer to, and replan their business strategy to refine their capacity allocation for local projects and for overseas markets.

Sector Catalyst/Risk

- **Achieving the right long-term direction is a commendable feat…** We like this renewed focus by the national oil major as it is a step in the right direction, as Petronas playing a more active role will catalyse service players into adapting to global standards and energy transition. However, we opine that this works only as a longer-term catalyst for sector valuations. This is because time (for OGSE industry to align their interests with Petronas') and execution matter. These require Petronas to have the grit, solid corporate governance and a united senior leadership team to steer past legacy systems and see its targets through. Petronas' contracts for its CEOs were usually for three-year tenures, and current CEO Tan Sri Tengku Taufik was last extended in Jun 23.
- **…but walking the talk matters.** In the previous PAO released one year ago, the key industry association ie Malaysia O&G & Energy Council (MOGSC) responded with feedback for better transparency on Petronas capex plans, especially for overseas markets for the benefit of service players. This did not materialise. In today's evolving energy landscape, where innovation matters and collaborations becomes the new competitive norm, every player recognises the need to set higher benchmarks and exceed expectations, ie "simply meeting targets" is no longer "safe" to remain relevant.
- **Petronas dedicating 2026-28 to revitalise local upstream landscape to recover domestic energy security.** Interestingly, Petronas named Belud field off Sabah, as well as the Kurma Manis and Sepat fields off Peninsular Malaysia, as key fields to support the 2m boepd production base. This is in sharp contrast to PAO 2025-27, where several Sarawak fields were named as key projects (Kasawari, Rosmary Marjoram, Gumusut Kakap). Recent events on the Megah-1 discovery may invite more public scrutiny (refer to RHS)
- **Petronas-Petros disputes alongside weak oil price expectations may set the narrative for 1H26 at least**. Just as some quarters thought that the drama might have taken a pause after Petronas reached out to the Federal Court to clarify its legal framework in Sarawak operations, Petronas' local crown jewel ie the Bintulu LNG complex alongside Petronas Carigali is seeking the Kuching High Court's judicial relief for RM120m, which is the total amount of eight fines from the Sarawak state for failure to apply for state licences to

PAO 2026-2028: In The Spotlight

- We believe this PAO is the first public disclosure of **Petronas' Capital Project Investment Destination Masterplan (CAPE) 2030**. CAPE is designed to strengthen O&G Services and Equipment (OGSE) players competitiveness and promote data-driven resources for integration
- Ultimately positioning Malaysia as the preferred investment destination for O&G, CAPE's key targets include being a regional top quartile performance by 2030
- CAPE's core pillars centre on improving project execution and IRRs (from discovery to monetisation) while encouraging digitalisation to centralise/ integrate resources planning.
- Acknowledging a weak oil price outlook for 2026, Petronas calls on OGSE players to be more nimble. via **three areas ie cost compression, diversification, and decarbonisation/ low-carbon businesses.**
- Malaysia's OGSE sector, with approximately 4,000 vendors, historically contributes 5-8% of Malaysia's GDP. The National OGSE Industry Blueprint 2021-2030 expects this sector to contribute RM40b-50b of Malaysia's 2030 GDP.
- Petronas is also committed to aid the OGSE sector to achieve 25% revenue mix from non-O&G sources by 2030.
- Ultimately, a stronger OGSE Ecosystem will also fundamentally fulfil Petronas' own targets. These include
- Upholding domestic O&G production at 2m boepd
- To reduce project timelines, ie achieve a 50-month cycle from discovery to monetisation, and optimise costs
- **The Malaysia Yard Productivity Target (MYPT**) signed with 5 yards, aims for a 30% productivity improvement by 2030. The roadmap towards regionally competitive position involves broad automation adoption. This include **MMHE (BUY/ Target: RM0.50)**
- **Transportation & Installation (T&I): Petronas has a partnership with a Malaysian T&I player to** safeguard supply security and uphold cost efficiency
- **Offshore Marine Logistics: Petronas plans a new collaboration framework** for a more efficient and stronger alignment as a hub for efficient offshore operations
- **Hook-Up and Commissioning (HUC) and Modification, Construction and Maintenance (MCM):** Petronas establish the HUC-MCM efficiency targets across nearly 100 contractors to elevate performance, productivity and cost efficiency by 30% improvement by 2030.
- **Floating Production Storage and Offloading (FPSO): A strategic shift** is underway to optimise, rather than conventional deployment, by way of lifecycle analysis, fit-for-purpose utilisation, and cost effective acquisitions
- **Petronas Carigali** has its own targets of achieving production cost/ barrel at US$6/bbl at US$50/bbl oil price.
- **Recently, Petronas appeared to fast track the Megah-1 Sabah deepwater discovery. Through its own ERMAI AI analytical tool, Petronas Carigali claimed the Megah-1 data analysis took merely 6 seconds vs six days,** Megah-1 was perceived to be as significant as the Kikeh discovery
- Upstream article quoted sources who perceive that Petronas is sending a subtle message to Sarawak that doing business in Sabah is much easier vs Sarawak.

Source: PAO 2026-2028

operate the gas facilities. This implies LNG disruption is still a risk on the 1H26 horizon.

Takeaways Of PAO 2026-2028, And Comparison To The Previous PAO Editions

Categories	PAO 2026-28	Actual, Jan To Nov 25	PAO 2025-27 (previous)	PAO 2024 – 26 (previous)	Actual, Jan To Nov 24	Direction	Comments
Wellhead platforms (WHP) planned award dates (low to high case scenario) PAO 2025-27 findings now include Peninsular Malaysia (Pen)	8 medium tonnage + 1 <1,000 MT in 2026 (mostly Sarawak)/ 6 medium for Sarawak in 2027/ 6 medium for Pen in 2028	2 Sarawak, 1 Peninsular (Pen) medium tonnage	3 <1,000 MT in 2025 (2 Pen) / 4 medium tonnage + 7 <1,000 MT in 2026 (mostly Sarawak)/ 1 medium tonnage + 5 <1,000 MT in 2027 (mostly Sarawak)	7 in 2024 (out of this, 3 are of heavy tonnage) / 4 in 2025 (all light tonnage <1,000 MT each) / None given for 2026	0 awarded	Negative	Last year, PAO dictated two CPPs and 17 WPPs to be awarded in 2026-27 horizon In latest PAO edition, the 2026 CPPs were cut to one, and 11 WHPs for 2026 cut to nine **Stocks: KKB Engineering, Muhibbah, MMHE**
Central processing platforms (CPP) planned award dates (low to high case scenario)	1 in 2026 for Sarawak	0 awarded	0 in 2025 and 2027/ 2 in 2026 for Sarawak	1 in 2024/ 1 in 2025/ None given for 2026	0 awarded	Negative	The reduced Sarawak CPP for 2026 may likely be Lang Lebah. **Stock: MMHE**
Decommissioning or plug & abandonment (P&A) of wells, (low to high case scenario)	2026/2027/2028: 70/80/80 (36/ 46/ 49 Pen)	63, above 46 plan	2025/2026/2027: 46/ 52/ 55 (39/ 29/ 31 Pen)	137 wells for 2024-26 (46 each on average)	47, within plan	Positive	In the past, Petronas targeted to P&A 80 wells on average p.a. from 2027 onwards. This was moderated down in PAO 2025-27, and was reversed again in PAO 2026-28 **Stocks: Uzma, Velesto Energy, Destini, T7 Global**
Decommissioning of platforms/subsea trees/ facilities under Engineering, Preparation, Removal & Disposal (EPRD) contracts (low to high case scenario)	2 Sarawak WHP in 2026; For 2027-30 horizon, 35 WHP facilities, 4 WHPs and 3 FPSO/ FSO	1 WHP in Peninsular; 3 Subseas in Sarawak	4 in 2025, including 1 CPP in Peninsular For 2026-29 horizon, 28 WHP facilities, 3 CPPs and 2 FPSO/ FSO	Total of 56 facilities across 3 years. WHP: 16 CPP: 3 Subsea: 3 Pipeline: 31 Wells: 1	1 FPSO/FSO in Sarawak; Below planned	Neutral	The decommissioning of 3-4 WHPs by 2029 may likely be intact vs past PAOs. However, the decommissioning of smaller facilities appears to have shifted slightly more to later years. **Stocks: MMHE, Destini, Uzma, T7 Global, Dayang**
No. of offshore support vessels (OSV) p.a. including Anchor Handling Tug And Supply (AHTS) (low to high case scenario)	106 OSV, procured under Production Operations Vessel (POV) 2026/2027/2028: 190/172/206 (Drilling)	Production: 114 vs 118 plan, below plan Drilling: 194 vs 220 plan.; below plan	118 OSV, procured under Production Operations Vessel (POV) 2025/2026/2027: 220/234/222 (Drilling)	89-130 AHTS (58-101 for drilling projects) 59-65 PSV 68-88 FCB 33-55 Workboat/ Barge	Production: 120 vs 148 plan, below plan Drilling: 250 intact vs 249 plan to vessel	Negative	OSV demand for production support fell again two consecutive years in a row, mostly for non-AHTS ships like Fast Crew Boats (FCB), Utility vessel (UV) etc OSV demand for drilling also fell, unlike in the previous PAO edition where it was maintained **Stocks: Perdana Petroleum, Liasson Fleet Group, Sealink, Marine & General, Alam Maritim, Petra Energy**
Jackup (JU), tender (TADR) rigs, HWU (low to high case scenario)	2026/2027/2028: JU: 9/10/12 (3/4/3 for Pen) TADR: 5/4/5 (2/1/1 for Pen) HWU: 5/4/4	10 JU (5 Pen), 5 TADR (3 Pen) 4 HWUs (3 Pen	2025/2026/2027: JU: 10/11/9 (5/3/2 for Pen) TADR: 4/6/4 (2/3/3 for Pen) HWU: 4/6/4	2024/ 2025/ 2026: JU: 13/ 14/ 15 TADR: 5/ 3/ 3 HWU: 6/ 6/ 5	14 JU (5 Pen), 4 TADR (1 Pen) 3 HWUs (2 Pen)	Neutral	2026 outlook for JU rig was downgraded, but this is within expectations and well guided by Velesto Energy. Tender rigs had a consecutive second year of minor upgrades. **Stocks: Velesto Energy and Ocean Vantage (JU rig), one listed player (tender/ TADR rig), T7 Global (low cost JU rig)**
Man-hours millions (m), Maintenance, construction and modification (MCM), Hookup and commissioning (HUC)	2026/2027/2028: HUC: 3.99m/3.91m / 2.21m (0.82m/ 0.54m/ 0.46m for Pen) MCM: 10.29m/ 9.14m/ 8.88m	HUC: 1.93m, below plan (1.63 Sarawak) MCM: 11.45 – below plan (5.09m/ 4.62m in Pen/ Sarawak	2025/2026/2027: HUC: 6.48m/ 5.36m / 5.25m (1.43m/ 1.26m/ 1.32m for Pen) MCM: 13.62m/ 10.95m/ 8.95m	2024/ 2025/ 2026: HUC: 7.6m (all contracted)/ 5.3m/ 5.1m MCM: 12.1m (all contracted)/ 13.1m/ 11.1m	HUC: 6.31m, below plan (2.94m/ 2.73m in Pen/ Sarawak) MCM: 10.31m – below plan	Negative	No explanation given on the low 2025 actual man hours vs planned for both MCM and HUC, this is the second consecutive period of disappointment. The HUC cuts in particular were very severe, likely indicating technological advancements **Stocks: Dayang, Carimin, Petra Energy, Deleum, T7 Global**
Plant turnarounds (covering Upstream, Downstream and Gas & Maritime)	2026/2027/2028: 2./4/1 onshore; 12/6/8 downstream; 7/7/4 for Gas	21 (4 onshore; 6 downstream, and 11 under Gas and Maritime)	2025/2026/2027: 4 /1 /2 onshore; 13 / 4 / 14 downstream; 6/ 6/ 3 for Gas	14 in 2024/ 18 in 2025/ 8 in 2026 (Pengerang included)	15 (4 downstream, and 10 under Gas and Maritime)	Neutral	The sudden spike in actual plant turnaround under Gas & Maritime segment for 2025 were mainly in East Malaysia. This was likely related to the unplanned production issues of the Bintulu LNG plants in 1H25. PETRONAS is embarking on a Self Regulation (SR) initiative which is expected to reduce the number of turnaround post SR certification while shifting focus to maintenance. **Stocks: Dialog, MMHE, Deleum, Pantech**

Source: Petronas, Bloomberg, UOB Kay Hian

IMPORTANT NOTICE - DISCLOSURES AND DISCLAIMERS

This report is provided subject to various disclosures and disclaimers (the "Disclosures / Disclaimers") which form an integral part of this report and are available at the following link: https://research-api.uobkayhian.com/assets/disclaimer/df64a6ea-7980-447c-ae9e-fd19b93257dc or by scanning the QR code below:

The Disclosures / Disclaimers contain important information, including without limitation, (a) exclusions of liability, (b) confidentiality obligations, (c) restrictions on publication, circulation, reproduction, distribution and use of the report, (d) potential conflicts of interest, and (e) disclosures and requirements specific to recipients in the United States and other applicable jurisdictions.

Specifically, this report is intended for general circulation and informational purposes only and does not take into account the specific investment objectives, financial situation, or particular needs of any individual person. It is not intended to constitute personal investment advice or a recommendation to buy or sell any investment product or security. You should independently evaluate the information and, where necessary, seek advice from a qualified financial adviser regarding the suitability of any investment, taking into account your specific objectives, financial situation and needs, before making any investment decision. Analyst certifications required under applicable regulations, including SEC Regulation AC (where relevant), are included in this report.

Recipients of this report must carefully read, review and understand the full Disclosures / Disclaimers before using or relying on any information in this report. By accessing, receiving or using this report, you acknowledge and confirm that you have read, understood, accepted and agreed to be bound by the Disclosures / Disclaimers (as may be amended or updated from time to time) in full."